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1986/07/30

CONFIDENTIAL

Lilley Testimony

July 30, 1980

TRANSFER OF MILITARY EQUIPMENT TO CHINA (COCOM ASPECT)

- Q. The United States has allowed increased transfers of military equipment to China recently. Is this situation acceptable to our COCOM partners?
- A. The United States continues to believe that there are several military areas in which we should not encourage or support Chinese advances, especially as they relate to increased offensive military capabilities. In other areas, the United States has selectively allowed the transfer to China of essentially defensive equipment, but always upon prior consultation with our COCOM partners.
- Q. Is anyone in the Administration keeping track of western military transfers to China, or are individual exports being made in a vacuum and outside of any coordinated plan?
- A. The Administration is engaged in consultations with our COCOM partners regarding the types of military equipment which might be considered for transfer to China at this time. Two discussions in COCOM have already been held, with a third scheduled for September. The goal is to establish a coordinated multilateral policy on arms transfers from COCOM nations to China, so that any such transfers will be thoroughly considered for their potential impact on our national security before they are made.

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Q: What is the status of the F-8 avionics upgrade case?

A: THE CASE WAS APPROVED IN COCOM ON JULY 22. WE EXPECT TO SIGN A LETTER OF AGREEMENT WITH THE CHINESE SOON ON THIS PROJECT.

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Q. How many Chinese have studied in the U.S. since 1978?

A. WE ESTIMATE THAT BY THE END OF THE DECADE ABOUT 30,000 CHINESE WILL HAVE STUDIED IN THE U.S. PRECISE FIGURES ARE DIFFICULT TO COME BY SINCE MANY OF THE STUDENTS ARE IN LONG-TERM PROGRAMS, LASTING MORE THAN THREE YEARS AND UP TO SIX OR SEVEN YEARS IN SOME CASES. WE ESTIMATE THAT THERE ARE 13-16,100 CHINESE STUDENTS IN THE U.S. NOW.

Q. How many Americans have studied in China?

A. ABOUT 3500. THEY ARE MAINLY IN HUMANITIES AND LIBERAL ARTS.

Q. What accounts for this imbalance?

A. WE HAVE A SITUATION WHERE A DEVELOPING COUNTRY IS ESTABLISHING ACADEMIC TIES WITH AN ECONOMICALLY AND TECHNOLOGICALLY ADVANCED COUNTRY. THERE WAS BOUND TO BE AN IMBALANCE AND WE EXPECT IT WILL CONTINUE TO GROW. FOR THE FORESEEABLE FUTURE, CHINESE STUDENTS WILL GO OVERSEAS SIMPLY BECAUSE CHINA'S UNIVERSITIES DO NOT HAVE THE ABILITY TO TRAIN ENOUGH ADVANCED DEGREE HOLDERS. MOST AMERICANS IN CHINA STUDY LANGUAGE, CULTURE, HISTORY OR ARE ENGAGED AS TEACHERS, PRIMARILY IN ENGLISH INSTRUCTION.

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- Q. Are most of the Chinese sent by the Chinese government?
- A. YES, THOUGH THE NUMBER OF PRIVATE STUDENTS (THOSE WHO FINANCE THEIR OWN COURSE OF STUDIES, THROUGH UNIVERSITY FELLOWSHIPS, FAMILY SAVINGS, OR SPONSORSHIP OF RELATIVES) IS GROWING.

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Q. Are all the students returning to China?

A. WE DO NOT HAVE PRECISE DATA ON RETURNED STUDENTS, THOUGH CONVERSATIONS OUR EMBASSY PEOPLE HAVE WITH EDUCATORS AND ADMINISTRATORS IN CHINA SUGGESTS THAT OF THE 50,000 OR SO TOTAL STUDENTS SENT ABROAD 20-24% HAVE RETURNED. THE CHINESE EXPECT MOST OF THOSE IN LONG TERM PROGRAMS TO COME BACK. THEY ARE AWARE THAT SOME WON'T. THEY ACCEPT THAT, THOUGH THEY ARE CONCERNED WHAT THIS LOSS MEANS FOR CHINA. BUT THEY ARE APPARENTLY BELIEVE THE VAST MAJORITY WILL RETURN.

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Q: The joint resolution passed by the Congress approving the US-PRC nuclear cooperation agreement required the President to make several certifications and submit a report to Congress before exports under the agreement may be made. What is the status of the Administrations's efforts to satisfy the requirements of the joint resolution?

A: IT IS OUR INTENTION TO MAKE THE CERTIFICATIONS REQUIRED UNDER THE JOINT RESOLUTION AS SOON AS WE ARE IN A POSITION TO DO SO. REACHING AGREEMENT WITH THE PRC ON THE ARRANGEMENTS FOR VISITS AND EXCHANGES OF INFORMATION UNDER ARTICLE 8 (2) OF THE AGREEMENT WILL, OF COURSE, BE A PREREQUISITE TO OUR ABILITY TO SATISFY THE REQUIREMENTS OF THE JOINT RESOLUTION. WE HAVE MADE SOME PROPOSALS TO THE PRC ON THE MATTER OF VISITS AND EXCHANGES OF INFORMATION AND WE BELIEVE THEY ARE GIVING THEM SERIOUS CONSIDERATION. AT THIS POINT, I AM UNABLE TO ESTIMATE HOW LONG IT WILL TAKE TO REACH AGREEMENT ON THESE AGREEMENTS.

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Q: Isn't it true that major, sensitive cases are often approved because of high level pressure from foreign governments, and not on their own merits?

A: A VARIETY OF FACTORS, INCLUDING FOREIGN POLICY CONCERNS, MUST BE WEIGHED IN DECIDING ANY EXPORT LICENSE CASE. I DO NOT BELIEVE HIGH LEVEL FOREIGN GOVERNMENT PRESSURE COULD CAUSE THE APPROVAL OF A CASE THAT WOULD CLEARLY AND SIGNIFICANTLY THREATEN US NATIONAL SECURITY INTERESTS.

DEPARTMENT OF STATE		IS/FPC/CDR <i>Jul</i> Date: <i>10/29/92</i>
<input checked="" type="checkbox"/> RELEASE	<input checked="" type="checkbox"/> DECLASSIFY	MIR Cases Only:
<input type="checkbox"/> EXCISE	<input type="checkbox"/> DECLASSIFY	EO Citations: _____
<input type="checkbox"/> DENY	<input type="checkbox"/> DECLASSIFY	
<input type="checkbox"/> DELETE Non-Responsive Info		TS authority to
FOIA Exemptions _____		<input type="checkbox"/> CLASSIFY as <input type="checkbox"/> S or <input type="checkbox"/> C OADR
PA Exemptions _____		<input type="checkbox"/> DOWNGRADE TS to <input type="checkbox"/> S or <input type="checkbox"/> C OADR

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Q: What measures are taken to ensure that the Chinese do not divert technology from its stated enduse within China, or reexport it to other proscribed destinations?

A: A VARIETY OF MEASURES ARE USED. IN NOVEMBER, 1983 THE US OBTAINED A CONFIDENTIAL WRITTEN ASSURANCE FROM THE CHINESE GOVERNMENT THAT ORGANIZATIONS IN CHINA WOULD OBSERVE THE OBLIGATIONS REGARDING RETRANSFER AND REEXPORT CONTAINED IN US EXPORT LICENSES. IN ADDITION, AS PART OF THE LIBERALIZATION DECISION OF LAST YEAR, COCOM MEMBER GOVERNMENTS REQUIRE AN END-USE CERTIFICATE FROM THE CHINESE GOVERNMENT FOR THEIR EXPORTS TO CHINA MADE AT NATIONAL DISCRETION. THE CERTIFICATE CONTAINS A NO REEXPORT RETRANSFER COMMITMENT. FINALLY, THE US GOVERNMENT FREQUENTLY IMPOSES STRINGENT CONDITIONS ON SENSITIVE US AND FOREIGN EXPORTS TO CHINA. THESE HAVE INCLUDED, FOR EXAMPLE, REQUIREMENTS FOR 24 HOUR MONITORING BY WESTERN COMPANY PERSONNEL OF SOPHISTICATED COMPUTERS.

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Q: What action has the US Government taken in response to reports that the Chinese have diverted sensitive technology from its stated end use in China to military or other areas of concern?

A: WE ARE NOT AWARE OF ANY CLEAR EVIDENCE OF RECENT, SIGNIFICANT ACTIONS OF THIS TYPE. IF WELL SUBSTANTIATED REPORTS OF SUCH ACTIVITIES ARE RECEIVED, WE WILL TAKE APPROPRIATE ACTION, BASED ON THE NATURE OF THE VIOLATION.

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How are particularly sensitive cases, for example those that could have an impact on our intelligence gathering capabilities, flagged for interagency review?

COMMERCE DEPARTMENT LICENSING OFFICERS IDENTIFY SUCH CASES BASED ON GUIDELINES THEY HAVE DEVELOPED WITH OTHER AGENCIES. COMMERCE, FOR EXAMPLE, ROUTINELY REFERS CASES TO CIA AND NSA. IN ADDITION, VIRTUALLY ALL NON-ROUTINE CASES ARE REVIEWED BY DOD, WHICH ALSO IDENTIFIES SUCH CASES.

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Q: Can you describe the interagency review process for China cases? Which agencies participate?

A: (NOTE: This is covered in the written statement.) IN THE DUAL-USE AREA, ROUTINE US CASES, THAT IS, THOSE NOT REQUIRING COCOM REVIEW, ARE GENERALLY REVIEWED ONLY BY COMMERCE DEPARTMENT, WITHOUT REFERRAL TO OTHER AGENCIES. VIRTUALLY ALL OTHER CASES ARE REVIEWED BY DOD. THOSE WITH NUCLEAR-RELATED ENDUSES ARE REVIEWED BY DOE, AND THOSE WITH IMPLICATIONS FOR OUR INTELLIGENCE GATHERING CAPABILITIES WITH THE INTELLIGENCE COMMUNITY. CONTENTIOUS, OR PARTICULARLY SENSITIVE CASES ARE DISCUSSED AT A WEEKLY COMMERCE-CHAired INTERAGENCY GROUP, WHICH INCLUDES REPRESENTATIVES FROM STATE, DEFENSE, ENERGY, CIA, AND NSA. FOREIGN CASES SUBMITTED TO COCOM ARE REVIEWED BY A SIMILAR STATE-CHAired GROUP. MUNITIONS CASES ARE PROCESSED BY THE STATE DEPARTMENT'S OFFICE OF MUNITIONS CONTROL AND ARE ALSO REVIEWED INTERAGENCY.

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Q: What are the 27 categories now accorded more liberal treatment under the recent COCOM agreement?

A: THEY ARE:

Numerical control units for machine tools

Isostatic presses

Cable and optical fiber manufacturing equipment

Printed circuit board manufacturing equipment

Electronic component manufacture or testing equipment

Equipment for manufacturing devices embargoed under 1588 and
magnetic recording media

Tooling and fixtures for manufacturing fibre optic connectors
and couplers

Robots

Aviation Equipment

Underwater detection devices

Single and multi-channel communication equipment

Radio Relay Communication Equipment

Lasers and laser systems

Electronic measuring equipment

Frequency synthesizers

Radio Spectrum Analyzers

Microwave equipment

Electron tubes

Electronic component assemblies

Electronic computers and related equipment

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Software and technology therefore

Communication switching equipment

Analogue-Digital and Digital-Analog Converters

Recording or reproducing equipment

Oscilloscopes

Quartz crystals and assemblies

Optical fiber preforms

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Q: Can you tell us the value and number of high technology cases approved for China in recent years?

A: NUMBER/VALUE OF DUAL-USE EXPORT LICENSES APPROVED FOR PRC

	NUMBER	VALUE	[Value of license approvals does <u>not</u> reflect shipments, which are <u>much</u> less; but they do measure US exporters' interest in China market.]
1982:	2020	\$500 million	
1983:	2834	\$932 million	
1984:	4443	\$2.0 billion	
1985:	8637	\$5.5 billion	
1986 1-5:	2715	\$2.0 billion	

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Q: You have said that no exports have been made under the US-PRC nuclear agreement. However, I understand that DOE has approved exports of certain nuclear-related technology to China. Can you explain this contradiction?

A: THE EXPORTS IN QUESTION WERE NOT MADE PURSUANT TO THE NUCLEAR AGREEMENT. IN ADDITION TO THOSE MADE PURSUANT TO AN AGREEMENT FOR COOPERATION, PEACEFUL NUCLEAR TECHNOLOGY TRANSFERS MAY BE MADE TO OTHER COUNTRIES BY SPECIFIC AUTHORIZATION OF THE SECRETARY OF ENERGY UNDER SECTION 57B OF THE ATOMIC ENERGY ACT AND 10 CFR PART 810. SUCH TRANSFERS DO NOT INVOLVE THE EXPORT OF ITEMS REQUIRING NRC LICENSES. WITHIN THE LAST YEAR, A NUMBER OF REQUESTS FROM US COMPANIES FOR AUTHORIZATION UNDER 10 CFR 810 TO PROVIDE THE PRC WITH ENGINEERING, CONSULTING AND OTHER NON-SENSITIVE SERVICES IN THE NUCLEAR POWER AREA HAVE BEEN GRANTED. SUCH AUTHORIZATIONS ARE ONLY GRANTED BY THE SECRETARY OF ENERGY, WITH THE CONCURRENCE OF THE STATE DEPARTMENT AND CONSULTATION WITH OTHER AGENCIES, AFTER HE HAS DETERMINED THAT THE ACTIVITIES TO BE CONDUCTED WILL NOT BE INIMICAL TO THE INTEREST OF THE US.

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